



## Fine Wine Market Decode: January

### Market Sentiment: Enquiries to Sell

- Enquiries to sell: £1,607,868
- Number of clients looking to sell edges up 5%
- Global market uncertainty means clients look to pocket gains

That the current market remains volatile is, perhaps, an understatement.

Evidenced over Christmas, Apple's China sales warning sparked a flash crash on the 24th, only for markets to stage a miraculous recovery on the 26th.

Despite recovery, the Dow Jones Industrial Average posting the largest single-day increase in history, that it was a warning over Chinese sales which saw Apple shares tumble 8% is of particular concern to the fine wine market.

This communication fuelled fear that growth in the world's second-largest economy is slowing rapidly, confirming that the cracks in China's economy appear to be widening, with signs of weakening growth against a background of trade tensions.

When the retail and stock markets are slow in China, luxury goods are the first to feel the bite. With wine a luxury good, Apple's warning can be taken as a stern warning over demand in HK and China, and one that will further test prices robustness. Simply, if China isn't buying, the price is falling.

This is worrying investors, who have reacted quickly to these developments, and who are looking to reduce over-exposure to fine wine in investment portfolios. With such uncertainty, it is increasingly becoming a question of time horizon.

Whilst long-term prospects remain good, especially for those investing this year, those who are looking to exit in the short to medium-term, are opting for the former. Fears over the seriousness of the Chinese slowdown mean people are more willing to pocket the strong gains made over the last two years, rather than committing to a much longer time horizon to factor out current uncertainty.



## Market Sentiment: Sales

- Asian sales recede by 23%, USA sales increase by 20%
- Burgundy ends year on high, but DRC stumbles
- UK trade recedes further by 4%

Hong Kong and mainland China markets remain sluggish, cautious about progress to end the US-China trade war.

Officials and business leaders are hoping that recent meetings in Beijing mark a continued thaw in relations, and these are expected to set the stage for higher level talks, before the current truce ends on March 1<sup>st</sup>.

As this deadline approaches, uncertainty continues to worry. That markets are sluggish was evidenced in Apples profit warning, blamed largely on poor sales across China, confirming increasing evidence of a slow down. Share prices from Hermes to LVMH all lost ground.

With fine wine a luxury good, the profit warning only reinforces the past few months of falling prices that JF Tobias has witnessed across the market driven by Asia.

In trade, the worry is that this is not just the effect of the trade war, but a larger malaise. If this is the case, demand in China can only be expected to weaken further—as will prices.

That China has reacted by injecting a record \$84bn into the country's banking system, following an earlier announcement over lower value added tax rates, has not entirely settled sentiment.

Given the current US government shutdown, the US fine wine market remains fairly robust. The dollar further strengthened against the pound, to a yearly high at the end of 2018, boosting sales, as all stock in the UK became discounted.

The UK and EU markets remain extremely cautious ahead of Brexit; with more uncertainty than ever, merchants are increasingly looking towards contingency plans in case of a no deal Brexit; consolidating owned-stock into the UK, hedging currency, and making emergency plans for blocks at the border. It is no surprise that trade share receded.

## Burgundy Ends on High, but DRC Stumbles

The rise of Burgundy continues to dominate discussions at the end of the year; however, it is the second tier of top producers that are trading well, with the premium prices demanded by DRC too much for a weak market.

DRC, Romanée Conti, 2009



Whilst Burgundy has continued to rise, and dominate headlines, we can see that DRC since September has lost value. It still represents a good investment, but shows the strains a slow market has upon premium prices.



## Feature: Looking Ahead, 2019

As the new year swings into focus, many investors and analysts are taking stock of 2018, and what we can expect from the year ahead. Jim Baxter, Account Manager at JF Tobias, talks us through the key things he has seen in 2018, and expects to see affecting sentiment in 2019.

- **476% more Screaming Eagle traded in 2018, against 2017**
- **989% more DRC traded in 2018, against 2017**
- **Amount of Bordeaux traded remained steady in 2018; Petrus increased by 3%, Lafite by 6%, Mouton stays the same**

"The long-term prospects for fine wine remain positive. However, the mounting uncertainty surrounding Brexit, and the prospect of sterling strengthening, as it simply cannot have any more risk priced into it, raises the prospect of wine prices beginning to fall further in the short to medium-term.

The slow down of the Chinese economy, which would result in weakening demand in China for luxury goods, fine wine amongst them, will be a key driver in 2019, and is one to watch. Set against the backdrop of the trade war, this may prove decisive in terms of wine prices, especially combined.

Looking ahead, last year was characterized by three notable themes. Firstly, Bordeaux consolidated having made strong gains for the past two years; although it is still 14% below its China bull market high in 2011. A gain of 35% over two years makes this look an attractive time to exit first growth in the short and medium-term.

Secondly, Burgundy continues its rise; if as volatile as the market itself at the moment.

Thirdly, we have seen the market broaden. Investors have spread interest in the pursuit of value, looking increasingly to Champagne, Italy, Rhone, and the USA.

Blue-chip Bordeaux will always represent a fairly low risk investment option, but increasingly looks great value set against Burgundy (three cases of Lafite 2000 for less than three bottles of DRC Romanée Conti 2015).

However, it is increasingly the New World and Burgundy which represent the more lucrative and attractive investment options in a broadening and ever more dynamic global wine market."

-Jim Baxter, Account Manager

## Currency Corner: FX Decoded

In the global fine wine market, relative currency strengths play a big part in performance.

Red swatches show those currencies that have gained in value against the base currency; blue those that have fallen lower in value.

